

Chairman's statement

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Total dividend

3.54¢
+10%



A handwritten signature in blue ink, appearing to read 'Alex Walker'. The signature is stylized and fluid.

Alex Walker
Chairman

2013 is a year that marks a turning point for the Company. The impact on the business due to the significant changes in our markets and accelerating shifts in the structure of the industry we serve has been marked. These trends manifested themselves through intense competition in the data center market, wireless device vendors seeing lower profitability combined with a lull in new technology and service launches. In addition, under investment in development of new test systems in some parts of the business in previous years and the lack of expansion of our products into new markets has had a negative impact. In response, we have undertaken a radical reorganisation of the activities within Spirent with the key strategic objective to create long term value by harnessing Spirent's leading capabilities and talent. It will take time to be fully reflected in the financial performance of the Company, but it is planned to restore revenue to growth in 2014 which will fund the necessary investment in product development and in the expansion of the sales and marketing activities for the long term growth of the business.

Group revenue reduced to \$413.5 million (2012 \$472.4 million). This resulted in a considerable fall in reported profit before tax to \$39.1 million (2012 \$108.4 million). The first half-year saw revenue fall by 19 per cent, but the rate of decline slowed in the second half-year with revenues down by 6 per cent and underlying stability in order intake. The order book increased by \$21.4 million in 2013 (2012 a reduction of \$14.5 million). Operational highlights included the release of next-generation products for Ethernet test, the launch of our advanced applications and security test system Avalanche NEXT and the delivery of test solutions for China's regional satellite navigation system, BeiDou.

Return on sales based on adjusted operating profit was 12 per cent for the Group, down from 25 per cent last year, reflecting the impact of the fall in revenues and the investment in the business to drive recovery and long term growth. This investment was in the expansion of our operating capabilities: product development expenditure has been increased by \$14.4 million and sales and marketing by \$4.9 million.

Basic earnings per share for the continuing Group decreased in 2013 to 5.10 cents per share (2012 12.11 cents). Adjusted basic earnings per share was 5.71 cents (2012 13.02 cents); this is before charging exceptional items, acquisition related costs, acquired intangible asset amortisation and share-based payment.

The Group's free cash flow generation was \$43.9 million in 2013, (2012 \$84.0 million); this is a cash conversion ratio of 1.3 times reported earnings (2012 1.1 times continuing operations). The Company has no debt and cash balances were \$216.2 million at 31 December 2013.

The Board aims to achieve a high return on capital employed in the business. The operating return on capital employed in the continuing Group in 2013 was 16 per cent, excluding cash balances. The target set for return on investment in acquired businesses is 16 per cent. Returns are low to negligible on cash balances, which are retained to allow surety of completion for acquisition negotiations. Whilst the Company continues to expect to invest in acquisitions which are in line with the strategy, it is also committed to returning surplus capital as appropriate. To that end, during 2013 the balance of the proceeds of the divestment of the Systems business, approximately \$33 million, was applied to the repurchase of Spirent shares in the market for

cancellation and the programme extended beyond this. In total 29.2 million shares were repurchased for \$55.5 million in 2013. No further buybacks are currently planned.

I am delighted to report the completion of the acquisition of the business of DAX Technologies Corp. ("DAX") for a cash consideration of \$37.0 million. The acquisition of DAX will enable Spirent to combine measurements and data from its solutions in the lab and in live networks, delivering high value solutions and expertise that help customers deploy and manage complex new networks and services faster and more effectively.

In addition, today we are announcing the completion of the acquisition of a majority stake of 58 per cent of Testing Technologies IST GmbH ("Testing Tech") for a cash consideration of Euro 2.0 million. This acquisition, although small in size, is an important step in the progression of Spirent's strategy to enter the automotive market.

We very much welcome the employees of both these companies into the Spirent Group.

The final dividend recommended is 2.01 cents per share compared with 1.83 cents per share in 2012. This brings the total dividend for 2013 to 3.54 cents per share compared with 3.22 cents for 2012. The increase in total dividend per share is 10 per cent. In sterling terms this represents an increase in the distribution to our shareholders of 5 per cent.

Board changes

September 2013 saw a change in senior management with Bill Burns stepping down as Chief Executive Officer and replaced in the role by Eric Hutchinson. Rachel Whiting, who has extensive financial experience and long service with Spirent, was welcomed to the Board in February 2014 as Chief Financial Officer.

Outlook

The disruption and structural changes experienced in our markets in the first half of 2013 stabilised during the second half-year. The reorganisation of the Group in the fourth quarter of 2013 has released creativity and energy, which is driving a dynamic change in the responsiveness and agility of our businesses. We continue to see opportunities arising through infrastructure investment in the wireless networks worldwide and in the development and rollout of virtual and cloud based services.

In 2014, we anticipate that Spirent's revenue will be linked to recovery in China, growth in the Americas and expected stability in the European market and we look to achieve high single digit organic growth.

This year the Group intends to make an additional investment of around \$33.0 million in future growth, in particular through a 15 per cent increase in product development, extending the sales channel to break into new areas, expanding Spirent's capabilities in the core markets that it serves and by entering new markets including automotive and enterprise. Whilst there continue to be near term uncertainties, activity levels at the beginning of 2014 are in line with our expectations. The Board remain confident that progress will be achieved and that the Group will benefit from the investment to create long term strategic value.